

## *SECTION 3: BUDGET*

*FUNDING POLICIES AND PROCEDURES*

*BUDGET GUIDELINES*

*ALLOWABLE EXPENSE*

*FINANCIAL GUIDELINES*

*ADDITIONAL FUNDING OPPORTUNITIES*

*PURCHASE AND INVENTORY OF EQUIPMENT*

*AUDITS*

*TIMELINE*

### *1. Funding Policies and Procedures*

KYAE uses the county as its service delivery and funding formula appropriation unit. The availability of county-level Census data on educational levels for groups by age and other demographic characteristics make this a good choice as it has validity, credible sampling size, and is updated regularly. KYAE funds are awarded through a competitive Request for Proposal (RFP) process. Funding for services (Core Service, EL/Civics, Professional Development, Program Performance and Student Performance Funding and additional funding sometimes awarded to programs i.e. Development or Student Success Funds) is determined by the funds available from both the State and Federal governments and is allocated by formula to county programs based on county Census data on the number of persons 18 and older without a high school diploma or GED. The funding level for each county is posted on the KYAE website.

Additional funds to support Workforce Education initiatives (Alliance Grants) are awarded based on locally requested proposals for service (available at: [www.kyae.ky.gov/educators/workforce\\_alliance\\_grants.htm](http://www.kyae.ky.gov/educators/workforce_alliance_grants.htm)). For details on Alliance Grants you should contact your Program Support Associate or consult other sources such as the KYAE Policy and Procedure Manual and the KYAE web site ([www.KYAE.ky.gov](http://www.KYAE.ky.gov)).

## 2. Budget Guidelines

Fiscal policy is a combination of state regulation, federal regulation, Council on Postsecondary Education policies and practices and KYAE policies and practices. Programs, through the RFP process, propose a budget which should be based on their program needs assessment and program design. Programs should have sufficient staffing to meet the goals for performance and enrollment outlined in the RFP Guidelines and the budget should allow for a location that meets the requirements of the program and other criteria that include a safe and appropriate learning environment. KYAE funding should not be used to supplant funding (by paying rent) provided as space through state owned facilities.

The State's budget process and a federal formula grant determine funding for Kentucky Adult Education. Therefore, state and federal guidelines apply to all KYAE funds. KYAE funds are awarded by county and service type, and counties are not required to report state and federal funds separately to KYAE. Therefore, Kentucky laws or regulations apply and federal laws and regulations apply. Generally, the federal guidelines are used and can be found in the applicable federal OMB Circular (A-87, A21, A122, 48 CFR Part 31 and Education Department General Administrative Regulations – easily found using any web search engine). These applicable regulations are spelled out in the contract agreements between KYAE and local fiscal agents.

Several budget parameters are considered in the review of local program budgets prior to the execution of a contract.

- Has the budget adequately addressed the staffing needs based on minimum criteria for the position they hold?
- Is the administrative portion of the budget within the allowable percentage of the total budget?
- Is there any line item that is not proportional, or not within the allowable guidelines?
- Is the total correct?

## 3. Allowable Expense

It is not possible to list all allowable expenses just as it is not possible to list all unallowable expenses. Sound business practice and judgment to purchase reasonable and necessary items is a good guide in most instances. The federal government addresses the topic of allowable/ unallowable cost based on a list of ten criteria that items must meet as well as other fiscal benchmarks. In order for an item to be allowable it must meet all of these criteria. (Source: Federal Education Grants Management: What Administrators Need to Know, Thompson Publishing Group, Inc. 2006)

Necessary & Reasonable —market price, ordinary and necessary, sound business practices, not a significant deviation from established practices of the unit

In determining reasonableness, a major consideration is the market price.

- Is the cost ordinary and necessary?

- Is this a sound business practice?
- Is this cost a significant deviation from established practices which unjustifiably increases the federal awards cost?

Allocable to Federal Award —chargeable or assigned to a particular federal program

The cost should be allocable to a particular federal award based on the benefit received.

Authorized or not prohibited under state or local laws or regulations

The cost must be allowable under state or local law as well.

Conforming to Limitation or Exclusions - allowable under the program statute and regulations and within the terms of the applicable circular

The cost must conform to any limitations or exclusions set forth under the cost principles, other federal laws, terms and conditions of the award or other governing regulations.

Consistent with Policies, Regulations and Procedures - consistent with policies, regulations and procedures that apply uniformly to both federal awards and other activities of the unit

Federal funds cannot generally be subject to different rules than non-federal funds.

Accorded Consistent treatment - like costs be treated consistently (direct v indirect)

A cost may not be assigned to a federal award as a direct cost if any other cost for the same purpose is allocated as an indirect cost.

Determined in Accordance with GAAP

Cost must be determined in accordance with Generally Accepted Accounting Principles (GAAP).

Not included as a Match or Cost Share

If federal funds are used, the cost cannot be counted toward a match.

Net of all Applicable Credits

All applicable credits (purchase discounts) are applied to the cost.

Adequately Documented

Document the charges in a manner consistent with provider's other expenditures.

These are general rules. Also consult KYAE for further information.

- There are additional criteria that cover capital purchases which include equipment and other items costing \$5,000 or more.
- Improvements to property that extend the useful life or add value to the property are not allowed.
- Costs must be incurred during the term of the contract (July 1, 200x – June 30, 200x) and items must be delivered and on hand (physically at the location) by June 30 so that students will benefit from the purchase in that grant year.
- Items should be budgeted (within a cost line item or category) and within the approved budget amount for the line item.
- Indirect charges are not allowed on KYAE contracts.
- Invoices should be received by the tenth of the month following service except the June projected final invoice which is due according to the date in the contract.
- Reconciliation for all expenses from the previous year is due in August. If the estimate of expense is greater than the actual expense a check for the balance is due within 60 days of the contract end date.

- When returning funds to KYAE the check should be made out to the Kentucky State Treasurer and should include a cover letter or document describing the amount being returned in each line item of the budget.
- No additional expense can be claimed after the final projected June invoice.

#### 4. Financial Guidelines

The contract is a key source document for most answers to fiscal questions or concerns. The contract provides specific details on:

1. The contract beginning and end date (Effective from: Effective to: for Core Service this is generally July 1, 200X – June 30, 200x)
2. Important contact information (Council's address, etc.)
3. Brief description of each budget line in the contract (Extended Description)
4. The amount of funding of each budget line ( Total Price)
5. The total funds in the agreement (Total Order Amount)
6. Services in general the provider (Second Party) is agreeing to provide (Section I):
  - a. Operate a program in compliance with Scope of Work, Performance Measures and Budget
  - b. Operate a program in compliance with the provisions of the KYAE Policy and Procedure Manual (<http://www.kyae.ky.gov/policy>)
  - c. Operate a program in compliance with the approved Request for Proposal response which is incorporated by reference (becomes part of the contract)
  - d. Operate a Family Literacy in compliance with KYAE Policy and Procedure Manual (if applicable- details in KYAE Policy and Procedure Manual <http://www.kyae.ky.gov/policy>)
  - e. Operate a Workplace program in compliance with KYAE Policy and Procedure Manual (if applicable—available at <http://www.kyae.ky.gov/policy/>)
7. There is an expectation of confidentiality of all information in any form about students and expectation that programs use the AERIN system according to policy (<http://www.kyae.ky.gov/policy/>).
8. Subcontracting services under the contract is not allowed. (Contract Section C)
9. Program's requirement to participate in a single agency-wide audit in accordance with OMB Circular A-133. If your agency receives \$500,000 or greater in federal funds (in total) or if an audit is not required, a letter stating that is due to KYAE by March (check contract for date). If the audit is not received, payments will be delayed until the audit or letter is received. (Contract Audit Section)
10. The contract is a cost reimbursement contract. Payment is based on reasonable, allowable, and actual costs. (Contract Method of Payment Section)
11. Requirement for timely invoicing and end-of-year final June invoice date.
12. The importance and requirement of reporting expenses for items that have been received and are allowable.
13. Limitations on Administrative Expenses. (15% of the Core Service award, 5% of the amount billed for EL/Civics)
14. Requirement to return any funds received in excess of actual cost within 60 days.
15. Resolving financial audit findings within 60 days.
16. Requirements to keep records at least 3 years and to allow access to records if requested.
17. Notice that KYAE has exclusive and irrevocable right to materials developed in the course of this contract and the right to reproduce and distribute any materials developed in the course of the agreement. (Contract—Copyrighting Section)

18. Amendments and/or Realignments are allowable with certain restrictions by date and line item. (Section K; Extension and Amendments)
19. Scope-of-Work answers Who, What, When, and other important questions.(Contract—Scope-of-Work)
20. Assurances that define additional requirements for staffing, location, computer hardware and IT requirements, distance learning and more. (Contract—Core Services Assurances Section)
21. Assurance that no other funds or assets of the Second Party shall be co-mingled with any KYAE funds and that KYAE funds will not be utilized for any purpose except those specifically identified (Contract—Financial Management System Section).

## *5. Additional Funding Opportunities*

KYAE offers opportunities for funding in addition to Core Service funds. English Language/Civics is an example. The federal government sets aside a portion of funding to states to provide a civics component that address citizenship for students whose native language is something other than English. These funds are required to be offered through a competitive RFP based on county Census data indicating a significant portion of the population speaks a language other than English in the home or to programs with sufficient English as Second Language (ESL) enrollments. In 2009, there are 21 counties eligible to apply for this federal funding. These are one year grants.

Occasionally KYAE makes supplemental funds available to programs. Examples of these funds include Development Funds and Student Success Funds. These funds are available when federal funds have not been completely expended. Programs have been allowed to use 5% of the funds for administrative purposes. These funds, when available, are one-time funds and programs are cautioned about using this source of funds for recurring types of cost.

## *6. Purchase and Inventory of Equipment*

Purchases made with KYAE funds should be according to the approved budget and meet all requirements for allowability (see Allowability section and Financial Guidelines section above) and be used according to and for purposes defined in the program contract and according direction from KYAE.

KYAE has defined inventory that is reportable to KYAE as all non-consumable property with a life expectancy of one year or more and acquired (partially or fully) with KYAE funds. In the event a program changes fiscal agents, all property purchased with KYAE funds reverts to KYAE. Inventory Reports are due in August and failure to report inventory may result in program payments being delayed or withheld. (Contract—Reporting Section)

## 7. Audits

KYAE has provided funds annually to audit approximately one quarter of its programs. Programs are selected randomly from the list of programs not recently audited. The purpose is to determine contract compliance according to agreement and that student and financial records are well maintained and in accordance with state and federal requirements. KYAE is required to report student and fiscal data to the National Reporting System at the federal Office of Vocational and Adult Education. KYAE uses these data to make data informed policy decisions. Therefore, it is essential that data is timely, valid and reliable.

Other areas of monitoring covered in the audit include Professional Development, instructor and other staff's credentials, inventory, tracking and use of funds, and program performance. These audits are "Agreed Upon Procedure Audits" and the items for testing are selected with input from and in consultation with the Auditor of Public Accounts (APA). In order to make the process as efficient as possible, a checklist has been developed to create awareness of the items the auditors will be testing and it is posted on the KYAE web site.

KYAE audits generally may take anywhere from a few hours of the director's time up to two days depending on the program size and the condition of the records. Final reports of these audits are public record and published by the APA. Any audit findings will need a corrective action plan and if there are financial findings a check will be due for any disallowed or questioned cost within 60 days. Programs may be selected for follow-up audit to confirm planned corrective action has been taken. Follow-up audits may take place in successive years. While audit findings can be very critical, audits are a tool programs should use to find weaknesses and strengths in their services or record keeping and are intended to guide best practice.

## 8. Timelines

Timelines are extremely critical. An efficient reporting system allows KYAE to make programmatic, policy and fiscal decisions that are based on current data. This is such a critical need that KYAE has certain date requirements that must be met. Failure to meet required dates may lead to payments being withheld or delayed. The contract highlights these dates and additional reminders or updates are communicated. However, the programs are responsible for awareness of all critical dates and to meeting the requirements. Timelines are communicated in program contracts and other KYAE documents. (Contract/Policy/New to Use/KYAE correspondence)